THE NATIONAL CITY BANK OF NEW YORK

1935

# Economic Conditions
# Governmental Finance
# United States Securities



New York, August, 1935

## General Business Conditions

TRADE and industrial reports during July have been better than even the optimists had looked for. The month is not expected as a rule to provide any eventful business developments, other than the Fall merchandise openings, and after the good showing made by the industries during the first half year a considerable letdown in the mid-Summer season would not have been surprising. Also, the confusion as to the legislative program supplies an unfavorable background for business, discouraging plans for expansion and new enterprise; and the decision of the Federal Circuit Court of Appeals in Boston on July 16, upsetting the processing taxes and leaving the future of the entire A.A.A. program in doubt, naturally creates uncertainty. It has checked trade in the markets where the taxes are levied.

Despite these handicaps seasonal recession is less evident than usual, and optimism as to the Fall outlook obviously has the upper hand. The merchandise openings and trade fairs both in New York and Chicago attracted more buyers to the markets than in several years, and the general testimony is that, based on conditions in their own territories, retail merchants are looking for an increase in sales this Fall over last. Initial orders reflect this expectation, though the practice is to keep them conservative with the intention of re-ordering later as business justifies. This will make for an orderly development of trade.

Showings of new lines have been held during the month in furniture, floor coverings, lamps, curtains, upholstery and other furnishings, all with encouraging results though in some cases prices are higher; and forecasts of the gain in factory sales for Fall in some of these industries run up to 30 per cent. Hardware business is good. In furs and woolen apparel lines the season has been excellent, and silks and rayons are selling in good volume, though at poor prices. Primary cotton goods markets, and to some extent cotton apparel, have suffered from uncertainty as to the elimination of the processing tax from prices, which causes buyers to hold off.

Expectations of good retail trade are based in part upon the sales reports now coming in, and partly upon the general outlook. Department store sales in June showed a contra-seasonal increase over May, and were 4 per cent better than a year ago, in dollars, though prices were slightly lower. In the first half of July sales in the New York district were 3.6 per cent higher, and in some other districts they were still better. Sales of the mail order houses show heavy increases, the gain for Sears, Roebuck & Co. in the four weeks ended July 16 having been 38.9 per cent, and the Montgomery Ward increase in June 23.6 per cent.

### Farm Income Higher

Merchants in the farm areas expect these gains to continue, in view of the uniformly larger crops that are being grown this year, the increased production and good prices of milk and eggs, both very important in the farmers' cash income, and the higher prices for livestock, which will offset the smaller supply. The Standard Statistics Co. has made an estimate of the gross value of agricultural production for this crop year which is necessarily tentative, but shows an increase of 12.6 per cent over the last season. As the prices of goods purchased by farmers will not be appreciably higher this is an indication of increased buying power, and should lead to further paying off of old debts and continued demand for all the things the farmers have done without during their lean years.

The cases involving the A.A.A., now on their way to the Supreme Court, are not likely to affect farm buying power this Fall, for a variety of reasons. The decision may not come for four or five months; and if the processing tax is held illegal the benefit payments may still be made out of work relief funds, the President having authority for this until April 8 next. Also, the estimated payments this season represent less than 6 per

cent of the gross value of farm products, as calculated by the Standard Statistics Co.

Of course it is possible that doubt as to the constitutionality of the A.A.A. may interfere with business in another manner. It may raise apprehensions as to farm prices over the next year or two, and thus discourage programs for expansion and improvement by those doing business in the farm States. A number of these programs are under way, for instance the resumption of retail store expansion by Montgomery Ward & Co. Amendments to the Agricultural Adjustment Act designed to make its constitutionality safe have been enacted, but the uncertainty is a handicap, since the effect of a breakdown of the program would be increased plantings in 1936 and probably lower prices. Agriculture would have to start again upon the natural adjustments which were under way when the A.A.A. substituted its emergency measures; and while in the long run natural adjustments would probably deal with the farm problem more effectively and lastingly than the A.A.A. can, time would be required to work out the new equilibrium.

### Steel Operations Improving

Confidence as to Fall has also been strengthened by good reports from the industries, and particularly the sharp recovery in steel mill operations since the Fourth of July. From 32.8 per cent of capacity in the holiday week the rise has carried to 44.0 per cent, the best since April 27. This recovery came earlier than expected, and is due to demands for tin plate, implements, and the variety of miscellaneous uses which have bulked large all year. Jobbers are replenishing stocks, and the evidence that consumption ran ahead of production during the late Spring is inspiring confidence.

The automobile industry has bought some steel for completing runs on its old models, and is beginning to place orders for materials for new models. The industry is having better runs on its 1935 cars than it expected; the strong demand at the end of June led to increases of the original July schedules, repeating the end-May experience, and while early July sales figures showed the usual drop it is evident that the shut down between old and new models, which will be introduced by November 1, will be shorter than had been feared. Preparation for the new lines will be stimulating a variety of supply and materials industries by Labor Day.

Among the major industries only coal and cotton textiles have shown much greater recession than is expected in Summer, and both are subject to special influences. Coal stocks had been accumulated in June, for fear of a strike, and the effect of the processing tax uncertainty on cotton has been referred to.

As the comments in recent issues of this Letter have pointed out, the business recovery this year has been strongest in various durable goods lines, led by automobiles, but including refrigerators, electrical appliances, farm implements, lumber, heating and plumbing equipment, and home and garden equipment of all kinds; also machine tools, light machinery, and finally residential building. Figures now available for the first half year make this strikingly apparent.

| | First half-year 1935 | First half-year 1934 | Per cent Increase |
|---|---|---|---|
| Passenger car production | 1,872,431 | 1,402,201 | +33.5 |
| Truck and taxi " | 389,713 | 312,062 | +24.9 |
| Total auto " | 2,262,144 | 1,714,263 | +32.0 |
| Lumber orders (000 bd. ft.) | 4,306,875 | 3,665,683 | +17.5 |
| Machine tool orders | — | — | +47.0 |
| Farm implement sales† | — | — | +75.0 |
| Residential building contracts | $208,173,600 | $131,747,900 | +58.0 |
| Mechanical refrigerator sales* | 760,988 | 650,447 | +17.0 |
| Oil burners, new orders* | 34,551 | 26,672 | +29.5 |
| Mechanical stokers, residential* | 6,060 | 3,492 | +73.5 |
| Air conditioning equipt., new orders* | $ 5,972,000 | $ 4,391,000 | +36.0 |

* 5 months. † Estimated.

Sales reports of a few leading manufacturers give indications of the gains in other lines:

| | First half-year 1935 | First half-year 1934 | Per cent Increase |
|---|---|---|---|
| General Electric | $94,546,000 | $80,983,000 | 16.8 |
| Westinghouse | 62,296,000 | 45,282,000 | 37.6 |
| Nat. Cash Register | 10,089,000 | 8,795,000 | 14.7 |
| Johns-Manville | 14,773,000 | 11,654,000 | 26.8 |
| Caterpillar Tractor | 18,796,000 | 13,059,000 | 43.8 |
| Allis-Chalmers | 16,370,000 | 8,506,000 | 92.2 |

In some of these industries the latest figures are more favorable than those above given. The gain in machine tool orders has been very sharp, the June index standing at the highest point in more than five years. Residential building contracts awarded during the first half of July were 123.6 per cent higher than last year, and total building showed a small gain over June, on a daily average basis, though a decline is usual for seasonal reasons. By the end of the month the aggregate of residential contracts for the year to date probably was as large as during the full year 1934.

These figures show that the industrial advance this year has carried more broadly into capital goods—motor trucks, implements and machine tools being in that category—and that private enterprise is on the rise in greater degree than in previous upswings in this depression. However, the heavier lines such as railway and utility equipment of course show little improvement, and the construction totals are still but a small percentage of normal.

### The Place of Money

The belief that easy money is at last beginning to have an effect upon the business situation is becoming much more general. It is influenced not only by the larger volume of bond issues already sold and in prospect, but by the continued strength of the stock market; for

the advance in the latter evidently is in part an adjustment of the yields on stocks to conform with reduced yields on other investments. To that extent it is due to the ease of money.

This is a tendency which if other conditions are favorable will facilitate raising new capital and thus stimulate capital expenditures. But it is important to remember that the initiative is outside the money markets. Easy money will have little effect, beyond reducing yields on prime securities, unless there is confidence in the economic and political situation, opportunity for profit and new enterprise, and balanced relations between all the elements entering in the exchange of goods so that trade can go on. Too much emphasis upon the money factor is misplaced. The basic improvement this year has been in trade conditions and it is due to expanded trade that money is being spent more freely on new equipment, and invested in securities in which confidence has heretofore been lacking.

To be sure higher security prices, also the improvement in land values reported from the farm States, are encouraging in themselves. They relieve pressure on people, make them "feel richer", and may add to purchasing power in the markets. Improved corporate earnings also add to buying power, and lead to increased purchases of industrial goods.

### Secretary Hull's Speech

A notable discussion of the business situation was given in New York City a few weeks ago by the Secretary of State, Mr. Hull. He outlined, as he said, "a number of fundamental conditions without which a full measure of industrial recovery in any important country is not possible." The following is a brief extract from this address:

> In the first place, there must be present a material basis for recovery in the revival of demand in the capital and durable goods industries and in the whole range of constructional activities.
>
> In the second place, there is needed a better balance in the domestic cost-price situation. Costs in certain important heavy and constructional industries are abnormally swollen. We have not yet worked our way down to bedrock. * * *
>
> Thirdly, we must leave no stone unturned to reach progressively a better balance in the international price structure. * * * We must minimize to the utmost possible extent the possibility of further serious upheavals. Statesmen in many countries are inquiring whether the time has not arrived when cooperation between leading countries could put an end to serious exchange fluctuations. Such action would enormously facilitate the remaining international price adjustments which must be made before a genuine balance has again been reached.
>
> As progress is made in this direction, we may confidently expect a loosening of the quantitative and other artificial barriers to trade which have been erected as bulwarks of protection against the chaotic international price and monetary situation.
>
> The final thing which is needed to bring about recovery, without which the material technological basis and the price balance just referred to become mere dead mechanisms without vital driving power, is the resurgence of the spirit of enterprise based on renewed confidence. Business calculations with respect to the expansion of investment activity depend not merely upon the technical needs of industry, upon cost and price relationships, but also upon confidence in the workability of human institutions, in the facilities and safeguards provided for both old and new enterprise, and in sufficient flexibility of costs and prices so that the efficient unit can go forward unhindered by the fetters imposed by abnormal restrictions upon production or by arbitrary rigidities in costs and prices.

Now that the N.R.A. no longer imposes upon industry "abnormal restrictions" and "arbitrary rigidities," to repeat Mr. Hull's phraseology, one of the chief obstacles to revival of capital goods buying has been broken down. The figures already given show the recovery in certain capital goods lines, and since it reflects the need to make plants more efficient there is no reason to think that this development will be halted. The necessity for "a better balance in the domestic cost-price situation", of which Mr. Hull speaks, requires the industries to modernize their plant, in order to reduce costs and sell profitably at prices which consumers can pay. Manufacturers are always under pressure to that end, and now that trade conditions are more favorable the endless process of improving the industrial equipment is being resumed.

All this is a hopeful development, and important in the recovery in more ways than one. Prices of farm products and industrial goods should be closer together, and in view of the increased farm production there is little prospect that the relation will be improved during the next twelve months by rising farm prices. This puts the burden of improving it upon the industries selling to the farmer. By modernizing their plant and reducing their costs they contribute doubly to recovery, namely, by reviving the machinery and allied industries, and by improving the terms of exchange upon which trade is conducted.

Mr. Hull's words in another part of his speech seemed to imply a criticism of business men for using obsolete equipment, but the answer may be given that the influence of the Government has been all against increasing productive capacity.

A press statement has been made during the month to the effect that the N.R.A. organization has numerous reports and complaints of "wholesale wage reductions, a lengthening of working hours, and a breakdown of labor standards and fair trade practices." Common observation and the state of trade alike indicate that this statement is greatly exaggerated, for the Fall merchandise business would be temporarily demoralized if it were true; and the charge has been denied by industries specifically mentioned. Nevertheless, efforts to reduce out-of-line costs and increase volume are to be expected, as long as there is not enough business to go around and enable all to work. Inevitably the industries must feel their way to increase employment

and production. It is a mistake to regard adjustments of this kind as opposed to recovery. The effort to improve the business equilibrium is ceaseless and almost unconscious, and it is not the measures naturally taken to that end which imperil recovery, but the interference with them.

## Money and Banking

The banking situation has shown little change during the past month. Money continues a drug on the market, with little to suggest that it will be otherwise for some time to come. While bank reserves have failed to show gains commensurate with those of previous months, they have averaged close to the peak reached in June, and at one time even exceeded that peak slightly. Excess reserves continued above $2,300,000,000, which is enough to explain the continued ease of money.

The reason for the failure of bank reserves to continue their rapid climb during July was a falling off in large-scale imports of gold. Ever since the stabilization of the dollar at a level greatly undervaluing it in terms of foreign currencies, gold has been pouring into this country almost without interruption, and it is this gold movement that has been mainly responsible for the huge increase that has taken place in bank reserves. Since January 31, 1934, when the dollar was stabilized, gold stocks have increased by $2,090,000,000, mainly on account of imports, while member bank reserves have increased by $2,188,000,000 in the same period. Inasmuch as bank reserves stood at $2,736,000,000 on the date of stabilization, this means that reserves have nearly doubled in eighteen months. Since business could not possibly absorb additional funds at this rate, the inevitable consequence has been to pile up idle money to record-breaking heights and drive down interest rates to the lowest levels in more than a quarter of a century.

During July, however, the gold movement slackened, reflecting improvement in the European gold bloc exchanges during June and early July. For the first 29 days of the month, net gold imports amounted to only 6 millions, compared with net imports in the previous months of the year as follows:

**Net Gold Imports**

| | |
|---|---|
| Jan. | $149,400,000 |
| Feb. | 122,800,000 |
| Mar. | 13,000,000 |
| Apr. | 148,600,000 |
| May | 140,000,000 |
| June | 230,400,000 |

Owing to the dwindling gold movement, money supplies, as stated, have ceased for the time being at least to accumulate. To conclude from this, however, that the supply of funds in this country has yet reached its peak would be premature. It is true that from now on into the Fall the seasonal expansion of trade ought to call for more currency which, in the absence of other factors, could be counted on to reduce bank reserves somewhat. Against this contingency, on the other hand, must be set the possibility of another large gold flow from Europe. With budgetary and monetary problems still acute in the gold bloc countries, the chance of some sudden alarm precipitating capital movements is always present.

An illustration of this occurred late in July when controversy in Holland over the budget and monetary policy resulted in a Cabinet crisis and fresh weakness of the guilder. Despite advances in the bank rate from 3 to 6 per cent, there was a renewed outflow of gold, of which approximately $27,000,000 was reported purchased for shipment to the United States.

### Money Rates and Trend of Bank Credit

Money rates, in consequence of the huge surplus of funds, have continued low, with, if anything, a slight downward tendency. This last is to be noted in the rates at which the weekly offerings of short-term Treasury bills have sold, these having worked down almost to the vanishing point, as evidenced by the award of $50,000,000 273-day bills on July 17 at a new low yield of 0.052 per cent, compared with 0.123 per cent on a similar issue at the close of June.

Despite all the available money on tap, and the extraordinary inducement to borrowers afforded by the current rates of interest, the demand for credit, apart from that required to finance the Government deficit, shows no tendency to increase. At the weekly reporting member banks, total loans and investments since the beginning of the year show an increase of $541,000,000, all and more of which can be accounted for by increased holdings of Government securities. In the following table we give the principal figures for these same banks now and a year ago compared:

**Weekly Reporting Member Banks**
(In Millions of Dollars)

| | July 18, 1934 | July 17, 1935 | Change from Year Ago |
|---|---|---|---|
| Loans on Securities | 3,522 | 3,034 | — 488 |
| All Other Loans | 4,439 | 4,471 | + 32 |
| Investments, Total | 9,796 | 11,257 | +1,461 |
| U. S. Gov. Direct Obligat'ns | 6,687 | 7,492 | + 805 |
| Obligations fully guaranteed by Government | | 869 | |
| Other Securities | 3,109 | 2,896 | + 656 |
| Loans & Investments | 17,757 | 18,762 | +1,005 |
| Net Demand Deposits | 12,697 | 15,618 | +2,921 |
| Time Deposits | 4,510 | 4,380 | — 130 |
| Government Deposits | 1,353 | 511 | — 842 |

The striking feature of the table is the evidence that loans have actually declined over the past year. This decrease has been caused

by a decline in loans on securities, but "all other" loans, considered broadly representative of business borrowing, have shown little increase. No doubt, a good many concerns are finding it possible to finance what additional business they have out of working capital. Apparently, also, Government expenditures are contributing in one way or another to the liquidation of old loans, the repayment of which tends to obscure the growth of new loans. Probably the major reason, however, is that business men still lack confidence that they would be able to use borrowed money profitably.

Investments have increased largely, and account for all of the increase in the total volume of credit. Most of this increase has been in holdings of Government securities, including Government guaranteed securities, which are included, along with miscellaneous securities, in the item—"other securities." At the present time 60 per cent of $18,762,000,000 of total earning assets is represented by security investments, mostly Government debt, direct and indirect; 16 per cent consists of loans on securities, leaving $4,471,000,000, or 24 per cent, in so-called commercial loans, by no means all of which can be classed as commercial loans in the strict sense of the term. These figures show the extent to which our banks have got away from commercial banking, and their progress towards becoming investment trusts, with the difference, however, that bank funds invested in securities are repayable on demand, while the funds of investment trusts are not.

Net demand deposits increased by nearly $3,000,000,000 over the past year, and are now at the highest point on record, exceeding the average of 1929 by approximately $2,230,000,000. This increase has been caused by the combination of heavy gold imports and of Government spending of the proceeds of credits created through the sale of securities to the banks. These deposits, of course, represent purchasing power at the command of individuals and business concerns throughout the country, who have but to draw a check to put it to use. The fact, therefore, that these deposits are so largely idle, as attested by the figures on deposit turnover, demonstrates the absurdity of the claim that business is being held back by lack of adequate credit facilities or by insufficient supplies of money.

#### Bond Market and New Financing

The continuance of record-breaking excess reserves and low short-term money rates has naturally given further support to the bond market, and many gilt edge issues have sold at new high prices. Government bonds were firm, with certain of the long-term Treasury issues at new peaks, the 4¼s of 1952 (optional 1947), for example, selling for the first time at 117 7/32s, at which the yield is 2.60 per cent. During the month the Treasury sold $101,967,000 2⅞ per cent long-term bonds under competitive bidding at an average price of 101 20/32s; also, $526,233,000 1⅜ per cent notes, due December 1939, at par on subscription. Both issues were heavily oversubscribed.

In the high grade corporation bond list, the effects of easy money have been even more striking in some instances than in the Government list. At 111½, for example, Union Pacific 1st 4s of 1947 yield a return of only 2.86 per cent, equivalent to around 2.31 if calculated minus the 13¾ per cent corporation tax, or less than the yield on Governments of comparable maturity. Similarly, the yield on Pennsylvania Railroad Consolidated 4s of 1948, priced at 112, is 2.88 per cent, or 2.33 per cent minus the corporation tax. On July 18, Moody's index of 120 AAA corporation bonds showed a yield of 3.69 per cent, the lowest since the beginning of the index in 1919.

New financing has been active during the past month, but most of it has continued to be for refunding purposes. Thus far the market has not been tested with respect to issues involving new capital, as business men evidently are not yet in a frame of mind to risk large sums in new enterprise.

A feature of the month was the appearance of some large issues carrying 3½ per cent coupons and offered at prices above par. The fact that these low rate issues are enjoying a good market indicates that investors have become resigned to a period of low returns. Though it would be well to recognize that present conditions and yields are abnormal, it must be admitted that there is little in sight to suggest an early change in the situation.

## The Half Year's Profits

Published earnings reports of corporations for the second quarter and the half year make a mixed showing. Industrial corporation profits in the second quarter taken in the aggregate gained over last year but by a smaller margin that in the first quarter. A considerably increased number of individual companies fell below last year's second quarter level which, it will be recalled, was at the high point of the year. Earnings of public utility and communication companies were down slightly this year and the deficit of the Class I railroads was materially larger.

A tabulation of the reports of 260 industrial corporations shows combined net profits, less deficits, of approximately $313,000,000 in the first half of 1935 as compared with $265,000,000 in the first half of 1934, representing a gain of 17.9 per cent. These companies had an aggregate net worth of $9,627,000,000 on January 1,

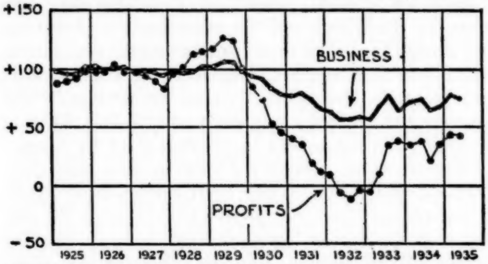
1935, on which the half year's profits were at the annual rate of 6.5 per cent this year and 5.5 per cent last year. As this tabulation is composed principally of the leading organizations in the various major industries, with the average net worth about $37,000,000 per company, it indicates the trend of earnings but does not provide an accurate measure of rate of return for all companies engaged in any particular industry or for industry as a whole.

Improved earnings were shown by numerous companies in such industries as automobiles and accessories, building materials, electrical equipment, household goods and supplies, office equipment, paper, printing and machinery. Operating results in the steel industry made a much better comparison with last year in the first quarter than in the second, while the third quarter is expected to make a relatively favorable comparison, but the steel industry as a whole has had no return on its investment since 1930. Unchanged or lower earnings were reported by many companies in the baking and miscellaneous food products, chemical, coal and metal mining, merchandising and petroleum industries.

### Profits by Quarters

Separate reports by quarters are available for 205 of the industrial companies in the tabulation and show combined net profits, less deficits, of approximately $161,000,000 in the second quarter of 1935, which compares with $123,000,000 in the preceding quarter and with $141,000,000 in the second quarter of last year. The gain in the second quarter over last year was 14.3 per cent, as against a gain in the first quarter of a similar group of companies of 21.8 per cent, the difference, as stated above, being due to the relatively good showing in the second quarter last year. Approximately as many individual companies failed to equal their second quarter 1934 showing as exceeded it.

The trend of industrial profits by quarters over a period of years may be seen from the accompanying chart which shows an index prepared from the reports of 200 leading corporations, corrected for seasonal variation, together with the Annalist index of business activity, both based on the 1926 average as 100.




**Quarterly Index of Industrial Corporation Profits and the Annalist Index of Business Activity. 1926=100**

Since profits for the second quarter of 1935, partly estimated, showed about the normal seasonal increase over the first quarter, the adjusted index remained practically unchanged. The record for the half year makes an encour-

**INDUSTRIAL CORPORATION PROFITS FOR FIRST HALF YEAR**

**Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.**

**Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.**

(In Thousands of Dollars)

| No. | Industry | Net Profits Half Year 1934 | Net Profits Half Year 1935 | Per Cent Change | Net Worth January 1 1934 | Net Worth January 1 1935 | Per Cent Change | Annual Rate of Return % 1933 | Annual Rate of Return % 1934 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Autos—General Motors | $69,587 | $83,730 | + 20.3 | $871,498 | $872,485 | + 0.1 | 15.9 | 19.2 |
| 9 | Autos—Other | 1,841 | 17,117 | +829.7 | 201,694 | 188,399 | — 6.6 | 1.8 | 18.2 |
| 22 | Auto Accessories | 9,705 | 14,507 | + 49.4 | 141,402 | 143,885 | + 1.7 | 13.7 | 20.1 |
| 6 | Baking | 9,057 | 7,223 | — 20.3 | 255,133 | 247,565 | — 3.0 | 7.1 | 5.8 |
| 12 | Building Materials | 2,043 | 4,063 | + 98.8 | 187,056 | 181,418 | — 3.1 | 2.2 | 4.5 |
| 13 | Chemicals | 45,646 | 45,635 | — 0.1 | 912,639 | 969,453 | + 6.2 | 10.0 | 9.4 |
| 7 | Coal Mining | 1,712 | 1,484 | — 13.4 | 92,089 | 71,180 | —22.8 | 3.7 | 4.2 |
| 9 | Electrical Equipment | 9,066 | 19,277 | +112.6 | 601,553 | 599,979 | — 0.3 | 3.0 | 6.4 |
| 14 | Food Products—Misc. | 31,897 | 29,524 | — 7.5 | 606,823 | 601,644 | — 0.9 | 10.5 | 9.8 |
| 8 | Household Gds. & Sup. | 2,698 | 3,303 | + 22.4 | 84,804 | 80,179 | — 5.5 | 6.3 | 8.2 |
| 1 | Iron & Steel—U. S. Steel | D-1,640 | D-2,936 | ...... | 1,869,187 | 1,840,532 | — 1.6 | ...... | ...... |
| 21 | Iron & Steel—Other | 9,501 | 11,193 | + 17.8 | 1,310,752 | 1,277,954 | — 2.6 | 1.4 | 1.8 |
| 12 | Machinery | 2,451 | 4,062 | + 65.7 | 96,665 | 94,473 | — 2.3 | 5.1 | 8.6 |
| 11 | Merchandising | 4,348 | 4,823 | + 10.9 | 221,333 | 224,671 | + 1.5 | 3.9 | 4.3 |
| 8 | Mining, Non-ferrous | 8,596* | 9,141* | + 6.3 | 205,588 | 196,424 | — 4.5 | 8.3 | 9.3 |
| 5 | Office Equipment | 7,148 | 7,439 | + 4.1 | 128,679 | 133,894 | + 4.0 | 11.1 | 11.1 |
| 7 | Paper Products | 1,071 | 1,555 | + 45.1 | 75,163 | 75,858 | + 0.9 | 2.8 | 4.1 |
| 13 | Petroleum | 8,436 | 9,035 | + 7.1 | 762,898 | 729,219 | — 4.5 | 2.2 | 2.5 |
| 5 | Printing & Publishing | 3,770 | 4,613 | + 22.3 | 59,544 | 59,882 | + 0.5 | 12.6 | 15.4 |
| 8 | Textile Products | 2,166 | 2,590 | + 19.5 | 65,746 | 64,804 | — 1.5 | 6.6 | 8.0 |
| 45 | Miscel. Manufacturing | 29,463 | 28,531 | — 3.2 | 597,230 | 596,758 | — 0.1 | 9.8 | 9.5 |
| 23 | Miscel. Services | 6,904 | 7,148 | + 3.5 | 375,534 | 376,900 | + 0.3 | 3.7 | 3.8 |
| 260 | Total | $265,466 | $313,057 | + 17.9 | $9,723,010 | $9,627,556 | — 1.0 | 5.5 | 6.5 |

D—Deficit. *—Before certain charges.

aging showing, since the majority of individual companies as well as their combined profits, less deficits, show gains over the first half of 1934. They show the continued tendency toward a recovery of business profits in this country from the low point of 1932, but they also show that the level of profits is still low owing to the limited expansion of business volume, high operating costs and increased taxes.

Even with the improvement indicated for the current year, the result for the six years 1930-1935 combined for all manufacturing corporations in the United States, numbering about 90,000 will be no net return whatever on invested capital, which aggregated $52,695,000,000 in 1929 and had shrunk to $43,976,000,000 by 1932 (latest official figures available) but a substantial loss instead, in addition to which there has been a heavy writing-down of property and working assets not carried through the profit and loss accounts but charged directly against capital and surplus. The 1933 figures are expected to show a further shrinkage in capital funds. All of the expansion in industrial capital during 1925-1929 has been wiped out during the depression.

#### Railroad and Utility Earnings

Total revenues of the Class I railroads for the half year were practically the same as a year ago, but due to the increase in operating expenses, including the restoration of wages to the 1929 level on April 1, their net operating income available for interest was about 14 per cent lower. The latest figures giving the balance after payment of interest charges but before dividends cover only the first four months of the year and show a deficit of $51,823,410. Taxes paid by the railroads during the first four months totaled $80,553,258. The railroads as a whole have not shown a profit in any year since 1931.

A representative list of twenty-five leading public utility systems, which report on the basis of the twelve months ended June 30, shows a gain of 2.7 per cent in total revenues as compared with the corresponding period last year. Because of higher operating expenses and higher taxes, however, the net income of these companies was 5.0 per cent lower. The American Telephone & Telegraph System also had a gain in total revenues, but an increase in operating expenses and in taxes resulted in lower net income for the parent company.

### The Wheat Situation

The wheat harvest is still an uncertain proposition, due to the prevalence of the black rust disease in parts of the Spring wheat belt, and crop observers who travel over the belt for the Chicago grain houses believe the outturn may fall 50,000,000 to 70,000,000 bushels below the July 1 estimate. Even if this is the case, however, the crop will be in excess of domestic requirements for the first time in three years. The official crop estimate for July 1 placed the Winter yield at 458,000,000 bushels and Spring wheat at 273,000,000, a total of 731,000,000, which compares with 497,000,000 last year and 529,000,000 the year before. Except in years of abnormally heavy feeding of wheat to livestock, which is not to be expected this year, domestic requirements for all purposes are no more than 625,000,000 or 650,000,000 bushels. Hence the Government estimate indicated a crop 100,000,000 bushels above the country's needs. Added to the carry-over of old wheat on July 1, which was 160,000,000 bushels, such a crop would make available fully 250,000,000 bushels for exports and end-season stocks. If this figure is reduced by 50,000,000 bushels it will still leave a surplus larger than last year's, and substantially over the 125,000,000 which is considered a normal reserve supply.

Unless the rust damage comes up to the worst expectations, the A.A.A. will obviously face a difficult problem, with a surplus to dispose of and the price in this country above the world price. Our wheat is 25 to 30 cents too high to sell abroad in competition with other producers; and the A.A.A., whose objective is the "parity price", now about $1.07 on the farm, desires to keep the market on a domestic basis. The premium was established originally through Government purchases of wheat in the Farm Board era, and has been maintained during the past two seasons by the great improvement in the statistical position resulting from the short crops. Now with the supply increasing again above our own needs, the natural tendency is for the surplus to seek an outlet in world markets, and the chances are that Government assistance will be needed if prices are to be maintained over the world level. The market is plainly counting upon such assistance as well as upon the crop damage.

Assuming that there will be a surplus to deal with, the Government may be expected as usual to subsidize the export of around 25,000,000 bushels from the Pacific Northwest, by paying to the exporters the difference between the domestic and foreign price. In the main wheat belt it might conceivably support the market in a number of ways: by export subsidies, by a loan to farmers to finance a holding movement, or by outright purchases, either for relief distribution or for holding in accord with Secretary Wallace's "ever-normal granary" proposals.

#### Maintaining the Domestic Price

In any event the significant matter is that the policy of maintaining our independence of

the world wheat markets is running into the inevitable difficulties; and if they are escaped this year by crop damage they will have to be met next year or later. If the Government subsidizes exports in any volume they will have a depressing effect on the world price. They may invoke retaliatory competition from other exporters, and give fresh impetus to the tendency of importing countries to protect their own wheat growers by prohibitive tariffs. Also, subsidies merely transfer to the body of taxpayers the losses which the farmers would otherwise sustain. If the Government buys or makes loans on wheat it will repeat the experience of the Farm Board, the Canadian wheat pool and lately the French Government, all of whom discovered that there is no remedy for the wheat situation in buying up a surplus and keeping it off the market, or in price pegging measures. The uniform history of such expedients is that they finally collapse, again with the loss falling upon the taxpayer and consumer, while a lasting adjustment of the difficulty is delayed.

To be sure, if curtailment of wheat production within the limits of domestic needs can be permanently enforced, taking the average over a period of years, there will be no difficulty in holding the domestic price above the world price. But there is no assurance that this is the case. The ability of the A.A.A. to control wheat crops through voluntary contracts, and even to obtain compliance with the contracts, has not yet been tested; for in the past two seasons the A.A.A. program has been an almost negligible factor in the reduction as compared with the drought, and there is reason to think that the surplus would have increased rather than diminished if the weather had been favorable during those years. In short, it is still to be demonstrated that the A.A.A. can place sufficient acreage under contract; or that it can obtain compliance in the heavy curtailment that will be needed to offset the non-contract acreage and the tendency toward a rising yield per acre. As long as wheat offers a remunerative return to farmers who have no better occupation for themselves or their land the restriction program is certain to meet trouble.

### The Canadian Surplus

The Canadian situation will be even more difficult than this country's, unless rust also intervenes to reduce the crop very sharply. The Canadian surplus has become the chief problem in the world markets. Western Canada has had favorable weather for the first time in three years, and the total Canadian crop this season was estimated on July 1 at 370,000,000 bushels. Adding the carryover, the season's supply on this basis would be about 450,000,000 bushels above domestic requirements, while by contrast exports during the past two seasons have been under 200,000,000. Allowing for reduction of this figure by rust damage, this is still the worst position, relative to the probable export demand, that Canada has ever been in; and the crop prospect has produced a crisis in the markets and created a political issue, since the surplus is under control of the Government.

Wheat is always an issue in Canadian politics, for no other country has endeavored so long and consistently to "stabilize" or "control" the wheat market, and efforts in that direction lead inevitably to Government intervention. Since the middle '20s, the Wheat Pools of the three Western provinces have dominated Canadian wheat marketing. The theory of the Pools was that concentration of sales in one agency and "orderly marketing" would raise the price to the farmer. But as in other experiences with this theory, the "orderly marketing" turned into a refusal to sell at prices that consumers would pay and that other producers would accept, and the crops therefore were not moved.

The result was that the Canadian end-season carryover increased steadily, beginning about 1927. Normally around 40,000,000 bushels, it was 134,000,000 on August 1, 1931, and two years later over 200,000,000, which is about the present figure. In 1931 the pool stocks were taken over by a new organization with Government support, the Canadian Cooperative Wheat Producers, Ltd., headed by John I. McFarland; and in the following depression years huge transactions for the purpose of "stabilizing" the Winnipeg market were carried out, the Government assuming the liability for any loss.

### Results of "Stabilization"

Within the past month details of these "stabilization" operations have become public, dating from January 14, 1933. On that date, Mr. McFarland held 76,000,000 bushels taken over from the pools a year and a half earlier at 60.5 cents per bushel, and 76,904,000 bushels of "stabilization" wheat. At the end of the bull market in 1933 he still had 65,619,000 bushels of stabilization wheat. Then came the 1933 harvest, and at the end of February, 1934, he had 136,709,000 bushels. Reducing his holdings somewhat during the Spring, he bought again during the following harvest, raising the stabilization holdings to 158,000,000 bushels at the end of December last year. On June 20 this year they had been reduced only 12,000,000, to 146,000,000, which with the 76,000,000 of pool stocks made a total stock of 222,000,000 bushels for which the Government has assumed liability. This pointed to a car-

ryover on August 1 of approximately 200,000,000 bushels.

On May 31 the cost of the pool wheat with carrying charges added was approximately $1 per bushel, the cost price of the stabilization wheat 79 cents, and the average for the total holdings 85.9 cents. The liability of the Government therefore was nearly $200,000,000.

This, in brief, is the situation to which Canada has come after ten years of "stabilization" and "orderly marketing", with the losses eventually to be assumed by the Government instead of by the farmers, who would have been influenced to decrease their production if they had had to bear them.

Obviously, the market problem is a difficult one, and the world situation is not encouraging. The new European crops are larger than a year ago, especially in the Danubian exporting countries, and Europe will need less wheat from abroad than last year. Russia may have wheat to export, if the reports of a bumper crop prove true, and the disturbing effects of her shipments in 1930 are remembered. Argentine and Australian supplies are expected to be smaller. Nevertheless, the total supply available in exporting countries (even if the United States is excluded) is larger, and requirements are smaller; and evidently the continued pegging of the Winnipeg price is a hopeless policy.

Canada's new Wheat Board Act, passed July 5, places the problem in the hands of a Government-controlled Board which will take over the existing stocks with directions to market them at "reasonable" prices, with regard to "economic and other conditions". The phrase, "orderly marketing" has been dropped from the Act, in favor of "the marketing of wheat". As to the new crop, the Board will have power to offer a fixed minimum price to growers, together with a participating certificate entitling them to share in profits, if any. Also, it can buy only from producers.

Plainly almost any selling policy will be possible under this Act, since "reasonable" and "economic and other conditions" are subject to varying interpretations. In the alarm expressed during the price decline early in the month, Prime Minister Bennett made the statement that "there is no intention that this country should offer its surplus of grain at fire-sale prices, or throw its surplus on the markets of the world as long as this Government exists." But obviously a policy of selling wheat cannot be carried out without naming prices in line with those of other producers, and with what consumers will pay; and if no wheat is sold because prices are unprofitable to the growers it is difficult to see what will persuade the growers to reduce their crop.

**World Situation Still Difficult**

As a whole the wheat situation gives evidence of the persistence of the difficulties in the way of establishing the balance between supply and demand and restoring an orderly prosperity. The wheat troubles are a heritage of the War, which overstimulated production in the surplus-producing areas, but they have been immensely complicated by the nationalistic policies which have increased the crops and reduced the consumption of the importing countries, and by the desperate efforts of the exporting countries to avoid making necessary readjustments, of which Canada now affords the best example.

Here and there are signs of fundamental improvement. Certainly the tendency to expand the world acreage has ceased, and is rather the other way. The abandonment of price fixing in France was a favorable development of the past season. But the situation this year shows that there is no room for easy optimism as to the prospects for wheat growers. The peak of the world surplus was reached, in terms of the end-season carryover, on August 1, 1934, when it was 1,155,000,000 bushels. During the 1934-35 season world production was almost 400,000,000 bushels below average, and it was hoped that a considerable part of this huge surplus would be used up. However, consumption was below expectations, and the reduction in world stocks apparently has been only about 275,000,000 bushels, of which 130,000,000 was in the United States. This signifies that on the whole the improvement was only that which resulted from the drouth here, in Canada, and in the Danubian states; and now that the crops are better in those countries the situation is turning for the worse again. The Southern Hemisphere of course is still to be heard from, and dry weather has given the Argentine crop a poor start, which may be important later.

It is pertinent to ask whether the methods employed by the various countries on behalf of their wheat growers have done as much for the national interest, or will do as much in the long run, as a policy of accepting the guidance of prices and making the adjustments indicated by them. It is plainly evident that the policies of "stabilization" and control, and the variety of protective devices used, are maintaining the average acreage and production above the world needs; and there is no reason to doubt that they will continue to have that effect if they are continuously employed. Of course wheat growers in any country can be sheltered from readjustments at the expense of the body of taxpayers and consumers, but there is no ground for believing that a permanent solution can be found along that line.

## Wealth and Its Distribution

The recent proposals for "wealth-sharing" have had numerous reverberations and reactions, from Washington to California and around the world, but the most notable in all respects has been an interview with Mr. Henry Ford, obtained by Mr. S. J. Woolf, for the New York Times Magazine of Sunday, July 7th. Nothing else that has been said on the subject compares in vital interest and importance with these comments of Mr. Ford.

In the first place, it is conceded by practical people that, in the natural order of things, wealth-*production* must precede wealth-*distribution,* and then everybody knows that Mr. Ford has had an unequalled experience in both. Wealth as defined in economics consists of *desirable things*—things for which people will willingly give their own labor or products in the markets—and judged by this definition, and measured by market prices, no other person in all history has been personally instrumental in the creation of so much wealth, or in its distribution to so many people, as Henry Ford.

His beginnings as a boy on a Michigan farm and as an apprentice at seventeen in the Dry Dock Engine Works in Detroit are familiar to the public. Already he was pondering over the horseless carriage idea. His first cars were made by a company in which he had a small amount of stock, but he was not pleased with the methods of the controlling interest, and withdrew. In 1903 he organized the Ford Motor Company, with a nominal capital of $100,000, of which he had 25½ per cent and other parties paid in about $28,000. Of this second beginning he has said in "My Life and Work:"

> In the beginning I thought that it was possible, notwithstanding my former experience, to go forward with a company in which I owned less than the controlling share. I very shortly found I had to have control and therefore in 1906, with funds that I had earned in the company, I bought enough stock to bring my holdings up to 51 per cent, and a little later bought enough more to give me 58½ per cent. The new equipment and the whole progress of the company have always been financed out of earnings. In 1919 my son Edsel purchased the remaining 41½ per cent of the stock because certain of the minority stockholders disagreed with my policies. For these shares he paid at the rate of $12,500 for each $100 par and in all paid about seventy-five millions.

The opinions of Mr. Ford command respect, for he has built up a great business, not by chance but upon sound principles. It need not be claimed that he knows everything or never has made mistakes; he would not make any such claim, but it is true that he has had an independent, self-reliant, and very successful business career. He has had good aids of his own selection, and demonstrated his ability to get along without them.

His achievements have not been accomplished by means of any monopoly, or even the aid of patents; he refused to cooperate in a plan to control the industry by patents for which he believed no proper basis existed. He has not been without competition. Ralph C. Epstein's book upon the Automobile Industry, a reliable authority, published in 1928, says that to that time 181 automobile companies had produced cars for the market, of whom 44 survived, and that 49 per cent had lasted six years or longer. At present the list of producing companies is less than 30, of which not one-half are now important factors. The rivalry has been vigorous, but the real rivals respect each other, and are quick to admit that they have learned from each other. Moreover, the industry has taught valuable lessons to all other branches of industry.

### Fortunes and What They Consist Of

Fortunes have been made in the automobile industry and fortunes have been put into it, but not many fortunes have been taken out of it. Mr. Ford's retiring partners account for nearly all. Dividends have not been large, having regard for the total of capital that has participated in the development of the industry. The net earnings were put into plant structures and equipment to make automobiles more cheaply and better, and there the fortunes are today, employing more workmen and paying higher wages for the class of skill required than any other industry in all the world.

This sketch of the industry tells the process of development by which cars have been improved in quality and reduced in price, over the period of approximately 40 years. The concentration of production in a comparatively few great plants has resulted from the choice of the public in making its purchases. There is no lack of competition between these producers or lack of aspirants for places among them. The distribution of wealth has been mainly from the purchasers of cars to the workers in the factories, the workers who built the plants and equipment, the workers who produced the raw materials, the workers in transportation and the other workers of various kinds, including salesmen, who have contributed to the production and distribution of the products.

### The Ford Methods and Principles

It cannot be questioned that Mr. Ford's experience has taught him something about industrial organization and the cooperation of capital, invention, scientific research, management and labor in the production and distribution of wealth. He has been very successful at it, and probably knows more about it than did Karl Marx, who, so far as the records show, never gave employment to anybody or created or distributed a dollar's worth of wealth. The Marx theory is that wealth is created only by manual labor. Ford knew better than that

even as a boy, when he made up his mind that there was too much work on that place for the pay in it, and that better results might be had by using less of that kind of labor and relying more upon brains, machinery and engine-power.

Below is a passage from his book which contains the gist of the Ford industrial policy. It begins abruptly by saying that evidently a majority of the people, in their own unaided faculties, are not capable of making a good living. This should not be taken as a slur or disparagement. Mr. Ford is a kindly, friendly man toward all his fellows, and as broadly sympathetic as any one, in all his feelings. It would be necessary to read his entire book to get his philosophy in full; we can quote but little. The extract is taken for the purpose of giving, in Mr. Ford's language, a description of one unit of the modern economic organization and of the part played in results by capable leadership.

The modern economic organization results from all the knowledge that has been gathered throughout the past. The vast variety of goods and services for sale in the markets is the product of the accumulated knowledge and skill of all contributors since man began to satisfy his wants from the resources of nature. Nobody but a specialist can be well informed today upon any branch of knowledge or industry. However, most of the knowledge now in use has been learned but recently—more in the last 100 years than in all preceding time. We can scarcely imagine the ignorance or destitution of the common people 100 years ago, and those conditions were not because they were oppressed by rulers or employers, but because nobody knew enough to extract a better living from the natural resources. The soil is still stirred with a forked stick or wooden plow in some parts of the world. A steel plow could not be made until somebody had learned to make steel, which began in quantities less than 100 years ago. There could be no automobile industry without steel, and the alloy steels, which for lightness and strength are so largely used in automobiles, are themselves a product of the automobile era.

The changes from the living conditions of 100 years ago to those of today have been accomplished by men and women of the Ford type of minds, i. e., by people of independent and creative mentality; the open-minded, receptive, thinkers and innovators—specialists who have concentrated upon selected problems until the problems were mastered—the type who at all times have been finding new ways of doing things and teaching better ways of living. The result of their labors in the aggregate has been to compel everybody to become a specialist of some kind and to depend upon other specialists for the satisfaction of most of his own wants.

#### The Economic Organization

Thus it is that nobody knows enough, or has the physical capacity, to make a "good living" in the meaning of today, with his own hands or knowledge. The productive capacity of today, upon which all groups and classes are daily dependent, is provided by *The Economic Organization,* which includes, not only manual labor, but the schools and universities where the sciences are taught, the teachers therein, the inventive and executive genius illustrated by Henry Ford, the savings and investments of capital in the equipment of production and transportation, the railroads and ships, the merchants, bankers, brokers, lawyers and other professional groups, and the specialists of every kind of skill and training who sell their services in the markets.

With this introduction we give an extract from pp. 77-88 of the book "My Life and Work":

It is self-evident that a majority of the people in the world are not mentally—even if they are physically—capable of making a good living. That is, they are not capable of furnishing **with their own hands** a sufficient quantity of the goods which this world needs to be able to exchange their unaided product for the goods which they need. I have heard it said, in fact I believe it is quite a current thought, that we have taken skill out of work. We have not. We have put in skill. We have put a higher skill into planning, management, and tool building, and the results of that skill are enjoyed by the man who is not skilled. This I shall later enlarge on.

We have to recognize the unevenness in human mental equipments. If every job in our place required skill the place would never have existed. Sufficiently skilled men to the number needed could not have been trained in a hundred years. A million men working by hand could not even approximate our present daily output. No one could manage a million men. But more important than that, the product of the unaided hands of those million men could not be sold at a price in consonance with buying power. And even if it were possible to imagine such an aggregation and imagine its management and correlation, just think of the area that it would have to occupy! How many of the men would be engaged, not in producing, but in merely carrying from place to place what the other men had produced? I can not see how under such conditions the men could possibly be paid more than ten or twenty cents a day—for of course it is not the employer who pays wages. He only handles the money. It is the product that pays the wages and it is the management that arranges the production so that the product may pay the wages. * * * While today we have skilled mechanics in plenty, they do not produce automobiles—they make it easy for others to produce them. Our skilled men are the tool makers, the experimental workmen, the machinists, and the pattern makers. They are as good as any men in the world—so good, indeed, that they should not be wasted in doing that which the machines they contrive can do better. The rank and file of men come to us unskilled; they learn their jobs within a few hours or a few days. If they do not learn within that time they will never be of any use to us. These men are, many of them, foreigners, and all that is required before they are taken on is that they should be potentially able to do enough work to pay the overhead charges on the floor space they occupy. They do not have to be able-bodied men. We have jobs that require great physical strength—although they are rapidly lessening; we have other jobs that require no strength whatsoever—jobs which, as

far as strength is concerned, might be attended to by a child. * * *

A Ford car contains about five thousand parts—that is counting screws, nuts, and all. Some of the parts are fairly bulky and others are almost the size of watch parts. In our first assembling we simply started to put a car together at a spot on the floor and workmen brought to it the parts as they were needed in exactly the same way that one builds a house. When we started to make parts it was natural to create a single department of the factory to make that part, but usually one workman performed all of the operations necessary on a small part. The rapid press of production made it necessary to devise plans of production that would avoid having the workers falling over one another. The undirected worker spends more of his time walking about for materials and tools than he does in working; he gets small pay because pedestrianism is not a highly paid line.

* * * Along about April 1, 1913, we first tried the experiment of an assembly line. * * * I believe that this was the first moving line ever installed. The idea came in a general way from the overhead trolley that the Chicago packers use in dressing beef. * * *

About the best we had done in stationary chassis assembling was an average of twelve hours and twenty-eight minutes per chassis. We tried the experiment of drawing the chassis with a rope and windlass down a line two hundred fifty feet long. Six assemblers travelled with the chassis and picked up the parts from piles placed along the line. This rough experiment reduced the time to five hours fifty minutes per chassis. In the early part of 1914 we elevated the assembly line. We had adopted the policy of "man-high" work; we had one line twenty-six and three quarter inches and another twenty-four and one half inches from the floor—to suit squads of different heights. The waist-high arrangement and a further subdivision of work so that each man had fewer movements cut down the labour time per chassis to one hour thirty-three minutes.

### Criticism of Mass Production

Further on in his book Mr. Ford comments upon the criticisms of mass production which stress the objections to mere machine-tending and other repetitive work. We quote in part:

Repetitive labour—the doing of one thing over and over again and always in the same way—is a terrifying prospect to a certain kind of mind. It is terrifying to me. I could not possibly do the same thing day in and day out, but to other minds, perhaps I might say to the majority of minds, repetitive operations hold no terrors. * * * When you come right down to it, most jobs are repetitive. A business man has a routine that he follows with great exactness; the work of a bank president is nearly all routine; the work of under officers and clerks in a bank is purely routine. Indeed, for most purposes and most people, it is necessary to establish something in the way of routine and to make most motions purely repetitive — otherwise the individual will not get enough done to be able to live off his own exertions. There is no reason why any one with a creative mind should be at a monotonous job, for everywhere the need for creative men is pressing. There will never be a dearth of places for skilled people, but we have to recognize that the will to be skilled is not general. And even if the will be present, then the courage to go through with the training is absent. One cannot become skilled by mere wishing.

The accepted theory is that all people are anxious for advancement, and a great many pretty plans have been built up from that. I can only say that we do not find that to be the case. * * * The vast majority of men want to say put. They want to be led. They want to have everything done for them and to have no responsibility. Therefore, in spite of the great mass of men, the difficulty is not to discover men to advance, but men who are willing to be advanced.

* * * If a man cannot earn his keep without the aid of machinery, is it benefitting him to withhold that machinery because attendance upon it may be monotonous? And let him starve? Or is it better to put him in the way of a good living? Is a man the happier for starving? If he is the happier for using a machine to less than its capacity, is he happier for producing less than he might and consequently getting less than his share of the world's goods in exchange?

The critics of "mass production" who emphasize monotony, instability of employment, etc., as the outstanding features, apparently assume that innovations in industry began with Henry Ford or thereabouts. In fact, however, the revolution in transportation began with the change from a pack on a man's back to a pack on the back of an animal; then came the wheelbarrow, the two-wheeled cart, the four-wheeled wagon, and meantime—on the water—the bark canoe, the dug-out, the sail, the mariner's compass, and later on the steam engine, the railroad, Twentieth Century Limited, the paddle wheel and the screw propeller with the Normandie and the Queen Mary, and *finally* (as we say) the automobile, the aeroplane and Lindbergh, each development important in the chain of consequences.

But Henry Ford timed his arrival right, in following Andrew Carnegie, who with others in his time revolutionized the steel industry, acting on the Ford principle, without waiting for the Ford example. The Bessemer steel process helped him to do it, but like Ford he was awake to every opportunity. The fortune he made in the steel industry, like the fortune made by Ford, was put back into the industry that made it and although the bonds which he received for the Carnegie properties, and scattered widely by his gifts, have been paid off, the fortune in other forms is still mainly devoted to public purposes. The price reductions accomplished by the new methods in steel production never could have been made without the employment of the earnings in the business; in other words, they were fruits of the Carnegie fortune, just as were the libraries, schools, pension funds and research foundations.

### The Story of Industrial Progress

Evidently the principle of "mass production" is not new, but the term has a different meaning at different times. Nobody knowingly wastes labor when working for himself, which is a good test of the soundness of the principle. People naturally take the short cut to get anywhere or to get anything done, and get the most for their labor. With an increasing knowledge of physical laws, and with the gains of the various industries helping each other, the cumulative gains of the public from all sources have been coming faster and faster, and this should be so in the future. Every discovery leads to others.

As to the monotony of labor, it is not clear how this can be harder to bear during an eight-hour day tending power-driven machinery than during twelve hours work with pick,

shovel and wheelbarrow, or carrying a "hod" of brick or mortar up a ladder, 100 years ago, not to speak of the fact that wages now are several hundred per cent higher.

Is any work more monotonous or laborious than hoeing corn, potatoes or cotton, swinging a "cradle" or scythe, shoveling, digging a ditch or cellar, chopping cord-wood, working an old-fashioned dasher churn, or doing the family wash on a rub-a-dub washboard — just to mention some of the jobs upon which our grandparents were chiefly engaged, and that now for the most part are done by machines? Were the old methods of making cloth by the joint labor of hands and feet, with the spinning wheel and flying shuttle, less monotonous or wearying than tending the machines which not only operate automatically but stop automatically when they happen to need attention? Is the making of clothes by hand-sewing less monotonous or tiresome than with the help of sewing machines?

These are questions that readily occur, and they suggest an extended comparison of former labor conditions with those of the present, and also the effect of the new methods upon the living conditions of the workers and their families. In farming, horse-drawn machinery first took the place of hand tools, and now engine-power is taking the place of horses, with the operator riding a tractor, drawing a gang of plows and a disk pulverizer, preparing more land for planting in a day than a man and team of horses could do in a week. In all farm work important gains are accomplished, and like all gains by improved methods they go eventually to the consuming public. The significance of these changes in agriculture appears in the fact that only about 25 per cent of this country's population now live on the farms. The other 75 per cent is released for employment in other occupations. That even now too many are on the farms, is proven by the low compensation for farm labor in comparison with wage rates for labor elsewhere.

It would be very appropriate here to review the industries in detail, showing thus what all of them have been doing while the automotive industries were developing. We have not the space to do more than refer in general terms to the changes in railroading, coal-mining, coke-making, glass-making, cement-making, road-making, electrical development, automatic equipment for blast furnaces and steel mills, automatic stokers for locomotives and steamships, automatic equipment for loading and unloading cars and ships, and all the other devices for saving time and labor and taking the hard and monotonous toil out of industry. For example, more than 80 per cent of coal mined in this country is now cut out of the seams by machine-power instead of by man-power, against 25 per cent no longer ago than 1900, and about 75 per cent of the coal consumed in locomotives is now handled by automatic stokers instead of being laid on the fire by hand shoveling. Ninety-eight per cent of the coal consumed by central power stations is mechanically stoked. Even the monotonous mental labor of adding columns of figures and making other computations are eased by the use of calculating machines.

To some people such facts mean nothing except that hand labor is being displaced. They do not realize that every reduction in the cost of goods or services brings them within the reach of more people, thus increasing consumption, maintaining employment and raising the general standard of living. This statement is verified by the record of 100 years of industrial progress, during which the gainfully employed proportion of the total population has constantly increased.

### Mr. Ford on Wealth Distribution

Asked by the interviewer to comment upon various proposals for "sharing wealth" Mr. Ford spoke very simply and clearly, without excitement, although he was describing what the plan would do to his life work. He said:

> There is nothing new to it. It has been proposed over and over again and always given up as impracticable. * * * The minute you hear any of them talking about sharing wealth you hear them begin to talk about money. There is where the great hitch occurs. They go around making speeches leading people to imagine that it is a comparatively easy thing to get all the money and divide it. What they do not explain to their audiences is the fact that money is not wealth.
>
> Money is one part of the bookkeeping system of society. It may represent wealth, but it is not wealth itself. Take this company; every one knows it is a wealthy company. What does its wealth consist of? Money? Certainly not. Its wealth is made up of productive plants, machinery and the rest of the things that go with them.
>
> What would the people who propose to share the wealth do with an organization such as ours? Should the machinery be confiscated and divided among those who have no machinery, or should the plant be taken over and run by a bunch of theorists or politicians? How long do you think it would last under such conditions? Not one proposer of this share-the-wealth idea has taken the trouble to explain how an organization such as ours might be taken over and divided and still remain a source of national wealth.

It would be interesting to ask a "share-the-wealth" proposer at what stage in Henry Ford's career it would have been socially desirable to have had the Government step in and take that industry out of his hands for the purpose of sharing the income with others? Speaking comparatively and from the standpoint of the average possessions of Mr. Ford's employes, $100,000 is a large sum, and if equality of possessions was to be the governing rule that might be the limit at which he would have been required to stop, on the theory that it was enough for him to live on, and that for him to acquire more would mean deprivation for others. This is the theory of

share-the-wealth—the theory of the card table—that what one player gains the others lose.

**Production for Use and Profit**

There is a world of wisdom and information in the brief Times interview with Mr. Ford. Take, for example, his reference to the division of the proceeds of industry. Just now a meaningless slogan is sounding, viz: "Production for Use and Not for Profit!" which suggests the question whether anybody ever built up a business or made a profit in the production of something that *had no use?* The answer to the slogan appears in the career of Henry Ford, and in his further comment, quoted herewith:

> The reason this company or any other company is wealthy is that it is producing something which is in demand. Industry can look after itself and is the most effective mechanism for sharing wealth. By industry I mean the market to which people bring what they have and secure what they need. It is the centre where materials, labor, skill and science are changed into the useful commodities of life. In the old days men bartered. Today life has become so complicated that goods and work are exchanged for dollars which are claims equivalent to the wealth produced. * * * * Customer, maker of the product and manufacturing plant all must profit. That is what happens in honest industry. The customer gets creative labor transformed into some utility for living. What he buys is worth more to him than what he pays for it. The maker of the product gets his profit in wages and salary and the third share goes to the manufacturing plant, which for the sake of its customers as well as for its employes must be kept up to date and efficient. The surpluses created in busy times must be used to tide over periods of adversity. This is the ideal condition and were it universal, then wealth would be shared.

In his description of the market as the meeting place of all producers and consumers, Mr. Ford gives a graphic picture of the great voluntary organization by which all wants are now supplied. The several groups are selling to each other and paying for each other's products by means of their own. Obviously they are mutually dependent and mutually supporting, like the parts of a machine; competitive within the groups, but fundamentally cooperative, because the groups are exchanging services. The vast increase in the variety and volume of production in the last 100 years, and in the thirty years to 1929, as briefly reviewed above, could be sold and distributed because the industrial groups were increasing production together and consuming each other's products. There is no limit to distribution by trading through the markets, so long as the organization maintains fairly balanced relations both in production and prices. *Balanced relations, not force or authority, govern in the economic system.*

We have named some of the leading factors in the economic organization, and Mr. Ford has well said that every needed factor must have compensation, for otherwise it cannot continue to function and every part will suffer. Obviously capital is an indispensable factor in modern industry, and must be provided to maintain the equipment, or production will slow down and progress will come to a halt. This is nothing to quarrel over; it is a matter of mutual concern. The fortunes which are the subject of discussion are all engaged in production for the market, in giving employment and in achieving the industrial progress above described.

The gains that we have described have been accomplished by the combined process of specialization and exchange, and as the system develops in complexity and interdependence the factor of cooperation increases in importance. If any great disturbance—War, for example—violently affects production, disrupts prices and throws the exchanges into confusion, unemployment and business depression result inevitably.

The public market is the arbiter of prices and the director of production, ruling by the simple and natural law of Supply and Demand. Mr. Ford's company has been growing stronger and richer, because, as he says, "it is producing something that is in demand," and the demand is a matter of public favor.

**The Factor of Competition**

The vital question is whether the market shall respond to individual wants, or the individual producers shall respond to the market? Mr. Ford's theory is that the market cannot be *forced*, but must be *persuaded;* if it is not buying freely of your product, you must offer better inducements. Here is the pith of his comment on this point.

> Now they are trying to kill competition. The NRA had that for its object, so has this share-the-wealth business. Kill competition and the world will not progress. When I speak of competition I am talking about fair competition not the cannibal kind that murders and steals in order to get ahead of the other fellow.
>
> There are always two of everything in the world and that being so there is bound to be competition and no laws can prevent it. It is lucky that they can't. This world was built to develop character, and healthy competition is one of the principal agents in doing this. Trying to stop it is like throwing a handful of ashes into the teeth of a gale.

Competition results from comparisons. You buy what you like best in the market and other people do the same. The law of the survival of the fittest in business results from each person's right of choice from among two or more offerings. It does not mean that the unfit shall be exterminated, but simply that each must create a demand for his services or find some other work for which he is better qualified. There is a place for everybody, and it is best for everybody and best for society that each person shall find the place where he properly belongs. If a man fails to be successful as a competitor of Henry Ford, perhaps he will do better in some other line, or he may get a job with Mr. Ford, as other men have done. One man has no better claim on society than another and it would be quite impossible

for society to place every person, without assuming authority to dictate what each should do and what he should have for doing it—an undertaking that would cause vastly more dissatisfaction than exists at present.

### The Value of Surpluses

Mr. Ford has faced problems, but has always risen over them. He has not always made money. In the interview he says:

* * * If they propose to share the wealth by excessive taxation, where will the money come from during off years, such as some that have just passed, when all large organizations were compelled to fall back upon their surpluses? In one year we circulated a great many millions more than we took in. Had taxation eaten up our surpluses we would have had to borrow money to go along.

The stock of the Ford Motor Company is owned by the Ford family. The company does not publish figures of earnings or dividends, but in compliance with law publishes an annual balance sheet. These statements indicate that in the two years 1931 and 1932 the business ran behind in the aggregate about $132,000,000 and also had a small deficit in 1933. These figures may have been affected by dividends or depreciation charges, but they indicate that the business ran behind three years in succession. In 1934 it was back in black.

The Ford Company habitually runs strong in cash, in comparison with most businesses, but its cash holdings are small in comparison with the values of plants and inventories or the total of receipts or disbursements.

### In Conclusion

There is more of the Ford interview than we can cover here. We may refer to it again. As the last quotation for the present, we offer the following as the Henry Ford slogan, truly characteristic:

The whole secret of economic stability depends upon a useful day's work for a proper day's pay.

The only way we can have production is by sharing it and the only way we can share it is by having it.

The uppermost question of the time is whether individuals of the type of Henry Ford and Andrew Carnegie, Henry Bessemer and Thomas A. Edison are useful or harmful in society? Are the mass of the people better or worse off for them? Are they leaders, teachers, creators, benefactors, or are they mere exploiters, oppressors, and enemies of society, to be suppressed and eliminated as soon as they come into prominence? What would be the living conditions in the United States today, with a population of 125,000,000, if all of the industries including agriculture, were carried on by the same methods and with the same tools and equipment that were in use 100 years ago?

It would be very appropriate following the discussion of the Ford interview to answer the persistent charge that the masters of industry take too large a share of the proceeds of the economic organization as compensation for their services. The answer is practically given in the statement already made, in substance that all of their profits above their living expenses and benefactions have been expended in the development of the industries and are employed in production for the market. Thus they have been and are as truly devoted to social uses as though they were owned by the public, and doubtless are employed more efficiently than would be the case if they were managed by government employes. We have, however, repeatedly given in these columns the official statistics of the profits of business, and the reader is now referred to the article in this number, entitled "The Half-Year Profits" (page 118), and particular attention invited to the statement, amply verified, that "the result for the six years 1930-35 combined, for all manufacturing corporations in the United States, numbering about 90,000, will be *no net return whatever on invested capital*. Also to a discussion under "The Present State of the Industries" in our May number, 1935, which shows that the proportion of all reporting active companies in the manufacturing group *having no net earnings* in each of the four years 1930-1933, was as follows, to wit: 1930, 55.6 per cent; 1931, 66.0 per cent; 1932, 82.9 per cent; 1933, 70.1 per cent.

We refer also to our September Letter, 1934, (pp. 139-140) giving the official figures of the consolidated earnings of all corporations in the United States operating for profit, over the eleven years 1919-1929, (post-war boom period) showing average net earnings to have been 4.08 per cent of aggregate gross income, with but one year of the period in which net earnings were more than 5 per cent on the gross volume of business handled. All of the foregoing figures are compiled from the volume of United States Treasury Statistics, and are unimpeachable. They are the latest official figures available.

Moreover, during the years of great activity, 1922-1929, while the average share of ownership in the total production of these industries was less than 5 per cent of the aggregate values, the distribution of the product was increasing at a rate that would double the annual total in 29 years, an unparallelled rate!* Since the hours of manual labor were decreasing, this increase of distribution is to be credited to improvements in organization, equipment and management—in short, *leadership*. The reader may judge for himself what would be the effect upon the system, and the state of employment and standard of living, if the leaders of industry and business were deprived of the agencies and instrumentalities with which they do their work.

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* Note: See Professor F. C. Mills' "Economic Tendencies," (p. 310) published by the National Bureau of Economic Research, Inc., 1932.

# The National City Bank of New York

*Head Office:*
Fifty-five Wall Street
New York

Capital, Surplus
and Undivided Profits
$169,398,088.99

## *Condensed Statement of Condition as of June 29, 1935*

INCLUDING DOMESTIC AND FOREIGN BRANCHES

ASSETS

| | |
|---|---|
| Cash, Gold Bullion and Due from Banks and Bankers | $342,477,964.70 |
| United States Government Obligations (Direct or Fully Guaranteed) | 471,433,919.71 |
| State and Municipal Bonds | 80,876,507.11 |
| Other Bonds and Securities | 69,809,060.71 |
| Loans, Discounts and Bankers' Acceptances | 542,818,206.39 |
| Customers' Liability Account of Acceptances | 37,619,215.92 |
| Stock in Federal Reserve Bank | 6,600,000.00 |
| Ownership of International Banking Corporation | 8,000,000.00 |
| Bank Premises | 56,964,938.35 |
| Items in Transit with Branches | 3,482,488.91 |
| Other Assets | 6,985,624.76 |
| *Total* | $1,627,067,926.56 |

LIABILITIES

| | | |
|---|---|---|
| Capital | | |
| Preferred | $50,000,000.00 | |
| Common | 77,500,000.00 | |
| Surplus | 30,000,000.00 | |
| Undivided Profits | 11,898,088.99 | $169,398,088.99 |
| Reserves for: | | |
| Unearned Discount and Other Unearned Income | | 2,751,292.91 |
| Interest, Taxes and Other Accrued Expenses | | 5,472,078.45 |
| Dividends | | |
| Preferred—To August 1, 1935 | | 881,802.50 |
| Common—To August 1, 1935 | | 3,100,000.00 |
| Liability as Acceptor, Endorser or Maker on Acceptances and Bills | $64,642,190.52 | |
| Less: Own Acceptances in Portfolio | 16,243,651.57 | 48,398,538.95 |
| Deposits | | 1,397,066,124.76 |
| *Total* | | $1,627,067,926.56 |

Figures of Foreign Branches are as of June 25, 1935

United States Government Obligations and other securities carried at $100,693,555.97 in the foregoing statement are deposited to secure public and trust deposits and for other purposes required by law.

# City Bank Farmers Trust Company

*Head Office:* 22 WILLIAM STREET, *New York*

## *Condensed Statement of Condition as of June 29, 1935*

ASSETS

| | |
|---|---|
| Cash and Due from Banks | $22,814,834.75 |
| Loans, Advances and Bank Acceptances | 50,452,142.83 |
| United States Government Obligations (Direct or Fully Guaranteed) | 23,990,983.58 |
| Other Bonds, Mortgages and Securities | 23,083,683.13 |
| Stock in Federal Reserve Bank | 600,000.00 |
| Bank Premises | 4,651,874.59 |
| Other Assets | 2,735,665.57 |
| *Total* | $128,329,184.45 |

LIABILITIES

| | |
|---|---|
| Capital | $10,000,000.00 |
| Surplus | 10,000,000.00 |
| Undivided Profits | 2,777,094.13 |
| Reserves | 411,611.68 |
| Deposits | 105,140,478.64 |
| *Total* | $128,329,184.45 |

United States Government Obligations, other Securities and Bank Acceptances carried at $85,129,252.81 in the foregoing statement are deposited to secure trust deposits and for other purposes required by law.

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U. S. A.